



# **OXFORD ANALYTICA**

## **HUNGARY**

## **FISCAL TRANSPARENCY**

### **Country Report 2005**

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# HUNGARY



## COMPLIANCE RATINGS

<i>Fiscal transparency</i>	2005	2004	2003	2002
Clarity of roles	●●●●	●●●●	--	--
Availability of information	●●●●	●●●●	--	--
Budget preparation	●●●●	●●●●	--	--
Accountability	●●●●	●●●●	--	--
Score	4.00	4.00	--	--

## OUTLOOK & COMMENTARY

The steady professionalisation and growing experience of the fiscal authorities in Hungary has ensured steady progress towards international best practice in fiscal transparency over recent years. The process has been further consolidated by Hungary's EU accession, most notably in the need to strengthen resources devoted to medium-term planning under the euro-zone accession requirements and the need to produce an annual Convergence Report.

In spite of these positive tendencies, however, Hungarian fiscal policy-making continues to be marked by a degree of politicisation that is high even by regional standards. Producing a cross-party consensus for reforms remains difficult and the electoral cycle continues to exert a major influence on policy-making. Any sustainable improvement in the fiscal situation is highly unlikely before the 2006 parliamentary elections at the earliest. Serious reform is further complicated by the heavy burden created by the large public service. Reducing its size through privatisation and other measures will be a key test for the new government. Unless reforms are implemented to address the structural causes of the fiscal situation, it will be difficult to ensure continued progress towards full fiscal transparency.

## EXECUTIVE SUMMARY

### 4.00 Compliance in progress

Continued progress towards the highest professional standards and the binding commitments of EU membership continue to deliver many important improvements in fiscal transparency. In almost every area, Hungary can be deemed to be broadly compliant with international best practice.

The main challenge for the authorities is the difficult fiscal situation, which has continued to deteriorate. Unlike its neighbours, Hungary has failed to capitalise on the favourable macroeconomic conditions. For the last several years the fiscal situation has repeatedly turned out worse than initially projected, even allowing for additional adjustments during the fiscal year. VAT receipts, in particular, have come in below expectations of late and accounted for more than half of the deterioration in the deficit in 2004. The difficulties have created pressures to find ad hoc solutions. A source of particular controversy in 2005 was an attempt by the authorities to improve budget figures by moving some of the government expenditure outside of the budget through public-private partnerships, most notably in the area of infrastructure investments.

The difficult fiscal situation has strained policy credibility. The commitment to euro adoption by the end of the decade is increasingly dismissed by market observers as unrealistic, with expectations now increasingly moving towards 2014. Hungarian euro adoption in 2010 would require reducing the general government deficit to 3% of GDP by 2008 from the projected 6.1% this year. This may adversely affect fiscal transparency to the extent that it reduces the disciplinary effect created by a formal deadline. If euro adoption is significantly delayed due to poor fiscal discipline, improvement may prove difficult if the policy implications of accession gradually move from the short towards the medium term.

The main challenges facing the Hungarian fiscal sphere are twofold. The high degree of political polarisation makes it very difficult to establish a broad-based consensus for sustainable reform. Thus the electoral cycle has a major impact on government behaviour, while the typically small parliamentary majorities further reduce the room for manoeuvre. Secondly, government finances are clearly suffering from the burden created by the oversized public sector. Nearly one-quarter of the economically active population -- some 800,000 people -- work in the government sector. Under the constitution, the municipalities are autonomous and account for 80% of total public sector employment.

Electoral considerations make serious reform unlikely, although there is a widespread recognition of the need to overhaul public services and the government's administrative apparatus. The lack of reform means that highly inflexible entitlements dominate government spending.

Hungary's overall score is unchanged from last year.

## 1. CLARITY OF ROLES, RESPONSIBILITIES, AND OBJECTIVES



Compliance in progress

**The government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed.**

### Structure, functions, and responsibilities of government

The relationship between general government and the rest of the economy in Hungary is clearly defined in the legislative framework. The State Treasury (*Magyar Államkincstár*) maintains a continuously updated record of all central level of government units (including central budgetary institutions, extra-budgetary funds and social security funds). There are currently 697 central budgetary institutions and 14,419 local government budgetary institutions in Hungary.<sup>1</sup>

Sub-national governments exist at the county and municipal level. They are self-governing entities but heavily dependent on fiscal transfers from the centre. Hungary has 19 counties and, in addition, Budapest enjoys a comparable status as the capital city. The development of the seven administrative regions in line with the requirements of the European Union is in progress. The local government sector is highly fragmented with around 3,200 municipalities.

Hungary currently has two definitions of the government for accounting purposes. The *Act XXXVIII:1992 on Public Finances* sets the definition of the legal government, which is composed of the state budget, central government budgetary institutions, extra-budgetary funds, and social security funds and local governments with their budgetary institutions. Eurostat and the IMF -- under GFS2001 -- use a broader definition, towards which the administrative system is currently transitioning.<sup>2</sup>

### Coordination and management of budgetary activities

Following major problems with budget execution in the early 1990s, a central Treasury system was set up under the supervision of the Ministry of Finance in 1996 to manage most revenue and expenditure flows. The purpose of the innovation was to bring a growing deficit under control and manage the problems created by a large number of independent budgetary institutions. The single Treasury account was set up to cover all institutions belonging to the state household, that is, the state budget and extra-budgetary funds.

The state budget covers all activities of the central government (according to national accounts ESA95, SNA93 and GFSM2001) and provides normative and other transfers to local governments. In addition, there are five extra-budgetary funds, which constitute part of the state household (but not the state budget), namely the Labour Market Fund, the Central Nuclear Financial Fund, the Research and Technological Innovation Fund, the Flood and Groundwater Protection Indemnity Fund, and the Homeland Fund (which will begin operations in 2006). The social security funds are the Health Care Fund and the Pension Fund.<sup>3</sup>

Certain appropriations have a special “add-on” facility which permits spending in excess of the budgetary allocation. These include consumer price subsidies, compensation for individuals and corporate entities in pursuance of government decrees. Any changes to the legal conditions of an entitlement, in contrast, must involve adjustments to

the appropriation. This requirement is waived for investment incentives where the add-on facility is justified by the importance of the projects for the national economy.

Certain public non-financial institutions -- in areas such as infrastructure, agriculture, housing, foreign trade, and medicine (general practitioners) -- are required to undertake non-commercial activities on behalf of the government. Public financial corporations are engaged in government programmes either by providing subsidised loans (where the interest subsidy is covered by the budgets of the relevant ministries) or through export-import insurance services backed by government counter-guarantees and finances from the budget. Non-budgetary units that have been reclassified as government entities under the ESA95/GFSM2001 definition include the Hungarian Privatisation and State Holding Company, the National Motorway Company, the Government Debt Management Agency, public media corporations (Television, Duna Television, Radio), and various non-profit institutions, public foundations, and public non-profit corporations.<sup>4</sup>

The Ministry of Finance, together with the Office of the Prime Minister, in 2003 undertook a survey of all at least partially state-owned non-profit institutions that perform government functions. About 175 foundations and “public benefit” companies with a combined capital of some 70 billion forints were identified in the process. Following the review, all entities relying primarily on the government budget for their funding will be absorbed in the central government budget.<sup>5</sup>

Since the early 1990s, expenditure arrangements in Hungary have become more decentralised. Local government institutions provide health, education, utilities and other services and employ 65% of public sector workers.<sup>6</sup> However, transfers from central government provide the majority of revenue for local budget institutions, meaning that local authorities are not always or entirely in control of their ability to deliver on these mandated functions. County and regional development councils are responsible for distributing special subsidies for less developed regions.<sup>7</sup>

The central government has clearly stated its determination not to assist municipalities in financial trouble and borrowing is carefully controlled. Local government bankruptcies are governed by the *Act on Local Government Bankruptcy*, which establishes a formal procedure for managing insolvent sub-national governments. In particular, the amount of liabilities arising from the commitments assumed by a local government cannot exceed the adjusted own revenues of the government (defined as 70% of the own revenue estimates less short-term liabilities such as debt servicing and leasing charges). Liquid credit repaid the same year is exempted from these calculations.<sup>8</sup>

The Hungarian State Treasury is accountable to the minister of finance. All budgetary appropriations, revenues, and expenditures are channelled through the Treasury. It processes the reports and budgets of all budgetary institutions, as well as conducting the financial management of the central budget and compiling the annual final accounts. It manages the accounts of all budgetary institutions, as well as state aid and foreign claims on the state. The Treasury is organisationally made up of two vice presidents and five directorates: implementation of the state budget, economics (public finance aggregation and accounting, regulation), financing (state aid, debt management, financial regulation), information technology, and economic management. In addition, there are 19 county directorates across the country which process the local government budgets and reports and supervise state aid, among other tasks. The Treasury currently has a total staff of just under 4,000.<sup>9</sup>

### **Relations between government and public sector agencies**

The National Bank of Hungary (*Magyar Nemzeti Bank*) is legally defined as an independent central bank. It is not allowed to issue credit to the government and cannot take instructions from government agencies in its management of monetary policy. However, the responsibility for setting the exchange rate regime and the inflation target is shared with the government. In Hungary’s highly polarised political debate, the relationship between the government and the National Bank has become increasingly tense and even confrontational in recent years, although

there is effective collaboration at the expert level. Following a revision of the NBH Act, the prime minister this year nominated four new members of the Monetary Council. The measure was widely seen as an attempt to influence the central bank's decision-making, although the actual impact of the measure on policy making appears to have been minimal.<sup>10</sup>

The NBH and the MoF continue to differ significantly in their assumptions about the government's fiscal position, with the NBH taking a much more negative stance. The central bank expected government highway spending on two major projects to be rejected by Eurostat as public-private partnership spending. The central bank further argues that the recent spending allocation on JAS Gripen fighters will have to be included in the deficit (some 0.42% of GDP). The government, in contrast, views the acquisition of the fighters as an operation lease and the authorities are currently awaiting a Eurostat ruling on the issue. In addition, the NBH and the MoF differ in their revenue and expenditure projections.<sup>11</sup>

The Government Debt Management Agency ÁKK (*Államadósság Kezelő Központ*) is responsible for the management of the public debt of the central government debt, the Social Security Fund, and extra-budgetary funds. In addition, it has the legal right to issue state-guaranteed debt, a recent case being an issue by the Student Loan Centre (*Diákhitel Központ*). ÁKK is a 100% state-owned company whose board of directors is appointed by the MoF and is mainly composed of senior representatives of the Ministry. At the MoF's request, the governor of the National Bank of Hungary appoints a permanent representative to the board. He is supplied with all documentation pertaining to debt management but has no voting rights. ÁKK consults with the NBH in formulating its strategy. As of 2004, ÁKK conducts active cash management of the Treasury account. ÁKK has no say in the formulation of fiscal policy. The MoF is responsible for approving ÁKK's annual plan, which is usually accepted with relatively minimal modifications.<sup>12</sup>

The Hungarian Privatisation and State Holding Company (*Állami Privatizációs és Vagyongkezelő, ÁPV*) is a holding company for remaining government stakes in the corporate sector and in real estate. The Treasury Property Management Authority (*Kincstári Vagyoni Igazgatóság*, a budgetary unit) has specialised responsibility for real estate and non-market type and non-tradable government property. ÁPV is responsible for the sale and management of state equity assets. It can retain a proportion of privatisation receipts for expenditures approved by the parliament, typically the costs of preparing and implementing the privatisation, the rest being remitted to the state budget. It is managed by a government-appointed board of directors and a supervisory board and is legally required to report on its transactions.<sup>13</sup> The justification for a separate privatisation agency is somewhat questionable at a time when the government portfolio is small and successful privatisations very rare.

The government deficit figures do not include the outstanding guarantees to the State Railways (*Magyar Államvasutak, MÁV*) and the Budapest Transportation Company (*Budapesti Közlekedési Vállalat, BKV*). According to some estimates, properly accounting for the guarantees could increase the government deficit by at least 1% of GDP. Liquidity loans to MÁV are a particularly important ongoing issue.<sup>14</sup>

### **Government involvement in the private sector**

The privatisation process in Hungary is largely complete. Almost 80% of the economy is in private hands, although the government still retains a presence in some majority privately owned companies. As of the end of June 2005, ÁPV had stakes in 135 companies, of which majority stakes could be sold in 97. In addition, ÁPV controls some real estate holdings. The most important remaining stakes include 99.95% of MALEV Hungarian Airlines, 11.8% of the oil company MOL, 25% of the pharmaceutical producer Gedeon Richter, and 50% of the FHB Land Credit and Mortgage Bank (*Földhitel- és Jelzálogbank*). Much longer-term privatisation prospects might include the Post Office and the State Railways, both of which will require serious restructuring.<sup>15</sup> In some of the remaining cases, the Civil Code makes full privatisation impossible. For example, the ongoing privatisation of Budapest's Ferihegy airport is limited to the right of use based on its sale of the equity of the operating company. However, the airport

infrastructure is defined as non-tradeable state property. It, along with the machinery, is controlled by the Hungarian Treasury Property Management Authority that operates under the auspices of the MoF.<sup>16</sup>

Government regulation of the private sector complies with the EU's *acquis communautaire* and international best practices. In some instances, there continue to be quasi-fiscal activities through price regulation, although the scale of this diminished significantly in 2003 when electricity and natural gas prices were raised to cost recovery levels. The overall share of regulated prices in the CPI basket was 19.4% in 2003, whereas another 14.6% were controlled through excise duties.<sup>17</sup> The only remaining area where prices are controlled by the government is local and long-distance transportation where there are no immediate plans to modify the system. The government has also subsidised mortgages in recent years, currently at the level of some 1% of GDP. However, the subsidies have now been capped in response to stronger-than-expected demand.<sup>18</sup>

A particular problem with the government's involvement in the private sector this year had to do with an attempt to undertake large infrastructure projects through public-private partnerships and formally outside of the government budget. The Hungarian government is pursuing an ambitious investment programme in highways, although the same approach was also applied – on a much smaller scale – to the construction of student dormitories and prisons. The government plans to double the length of Hungary's 580-kilometer national highway network by 2007 at an estimated cost of some 4.8 billion US dollars.<sup>19</sup>

Following a wave of restructuring and consolidation, the development of the Hungarian highway infrastructure has since 1999-2000 been the primary responsibility of two distinct state-owned companies (although also private companies have been involved as principal partners on some projects): the National Motorway Company (*Nemzeti Autópálya*, NA) and the State Motorway Management Company (*Állami Autópálya Kezelő*, ÁAK). NA is ultimately responsible for the development and construction of the highway structure. ÁAK, in contrast, is responsible for operating the system. Since it derives its revenues primarily from the private sector (through highway tolls), the Hungarian government was hoping to treat it as a private sector entity and move the highway investment off-budget by having NA transfer the finished, as well as uncompleted, motorways to ÁAK. There is no objection by Eurostat to transferring the completed and uncompleted sections to ÁAK and embedding them into a large project covering the whole project. However, Eurostat refused to accept the treatment of reimbursement of the construction costs related to such sections as receipts, which added nearly two percentage points of GDP to the government deficit. Nonetheless, the government is determined to push ahead with the plans. In fact, consultations with Eurostat affirmed that it is possible to find a market-type model in which ÁAK can be accepted as PPP partner, and thus the model meets the criteria of being off-balance sheet road construction. Work on developing such an arrangement is ongoing.<sup>20</sup>

## **There should be a clear legal and administrative framework for fiscal management**

### **Legal framework for budgetary activities**

The Constitution places the parliament in charge of approving the government budget and final accounts. The principal legislation governing fiscal activity in Hungary is *Act XXXVIII:1992 on Public Finances*. It covers the central budget institutions, along with off-budget state funds, local governments, and the social security system.<sup>21</sup> The *Act C:2000 on Accounting* establishes a unified accounting, auditing, and reporting system for all units of the legal government.<sup>22</sup> The *Act LXV:1990 on Local Government* lays down the responsibilities of local governments.

Although it generally conforms to international best practices, Hungarian legislation leaves budgetary entities a certain amount of flexibility in varying and re-allocating their expenditures.



### **Legal framework for taxation**

Tax procedures are set out in the *Act XCII:2003 on the Order and Regime of Taxation* which establishes the rights and obligations of both taxpayers and tax authorities. It addresses the jurisdiction and competence of tax authorities, the legal consequences of default, and administration procedures. The Act is readily available as is advice on tax issues. Issues pertaining to local taxes are covered by the *Act C:1990 on Local Government*. Individual taxes typically have their basis in separate pieces of legislation. The customs legislation broadly conforms to EU standards. They are applied uniformly, and tax and customs officials alike are bound by codes of ethics in addition to their standard civil service obligations.<sup>23</sup>

Tax administration is the responsibility of the Tax and Financial Control Administration (*Adó- és Pénzügyi Ellenőrzési Hivatal*, APEH), which is an economically independent body of state administration operating under the auspices of the MoF. Its operations are governed by the founding legislation and the *Act on the Order and Regime of Taxation*.<sup>24</sup> While the system is generally professional and efficient, problems are caused by the high tax burden and the fragmented legislation.<sup>25</sup> Customs administration is carried out by the Hungarian Customs and Finance Guard (*Vám- és Pénzügyőrség*), which is controlled and supervised by the MoF.<sup>26</sup>

### **Ethical standards for public servants**

The *Act XXIII:1992 on the Legal Status of Public Servants* is the key legal document that defines the responsibilities and rights of public servants. It includes provisions relating to personal liability, conflicts of interest, remuneration, promotion, and discipline.<sup>27</sup>

Hungary has a highly professional and relatively well-paid civil service. In spite of this, however, corruption remains a problem, although it is generally deemed to be less serious than in most other new EU member states. The Transparency International Corruption Perceptions Index in 2005 ranked Hungary 40<sup>th</sup> of the 159 countries reviewed with a score of 5.0 out of a perfect 10.<sup>28</sup> Public perceptions in Hungary see corruption as endemic, with the police and tax and customs authorities most directly affected. Similarly, the use of “gratuities” is par for the course in the health care sector. Attempts by the State Audit Office to assess the importance of corruption suggest that anti-corruption measures, most notably the 2001 anti-corruption strategy, have met with at best partial success. International assessments have pointed out particular problems with the illegal funding of political parties. The current government in 2003 launched a “Glass Pockets” programme designed to increase transparency in public life.<sup>29</sup>



## 2. PUBLIC AVAILABILITY OF INFORMATION



Compliance in progress

**The public should be provided with full information on the past, current, and projected fiscal activity of government.**

### Central government operations

Under the *Act on Public Finances*, the government is required to develop a system of budget information that will “facilitate the planning of the financial processes of the public finance system, the establishment of the targets/quotas of the budget and that will be suitable for the analysis, appraisal and controlling of the realisation of the budget.”<sup>30</sup> Moreover, the Act states “the financial statements and the budgetary reports of the system of public finances shall be harmonised with the obligations of provision of statistical data, international governmental financial statistics, and the scheme of national accounts.”<sup>31</sup>

The government, in the run-up to Hungary’s EU accession, committed itself to developing a rolling three-year fiscal programme, initially for the years 2004-6, partially with a view to managing the absorption of EU funds. The framework establishes expenditure targets for the main budget chapters. All future budgets are prepared within this framework. However, the project has been fraught with problems. At the moment, the medium-term objectives published in connection with the budget contain only non-binding deficit targets for the following two fiscal years.<sup>32</sup>

The Final Report on the Fulfilment of the Budget provides some information on tax expenditures in terms of quantifiable exemption permitted by the personal and corporate income tax laws. Relevant types of state aid provided by the central government are also documented and reported by the State Aid Monitoring Office (*Támogatásokat Vizsgáló Iroda*) within the Ministry of Finance. Certain information on quasi-fiscal activities, in the form of transport and other subsidies, is also provided.<sup>33</sup>

The government has prepared a new system for reporting the value of the financial assets of general government entities, and this has permitted their revaluation on a “fair value” basis or to reflect market prices since 2002. All general government entities are required to compile quarterly and annual accounts providing the opening and closing stocks of their financial assets and liabilities.<sup>34</sup>

The periodicity and timeliness of Hungarian fiscal statistics meet, and in some cases exceed, the IMF Special Data Dissemination Standard (SDDS) requirements.<sup>35</sup>

### Public sector operations

The *Act on Public Finances* was amended in 2001 to impose detailed reporting requirements on all economic units engaged in fiscal activities. These include public trust funds, public non-profit companies, ÁPV, and the Hungarian Development Bank (*Magyar Fejlesztési Bank*, MFB). For example, ÁPV is now required to submit monthly reports on cash receipts and expenditures, as well as quarterly balance sheet reports matching those submitted by budgetary entities. Most other entities report on an annual basis, although additional information can be requested on an ad hoc basis. NA, the National Motorway Company, produces quarterly data.<sup>36</sup>

The government's budget documents now provide comprehensive coverage of general government operations. There is semi-annual budget reporting, which covers all components of the legal government with both a functional (activity-type) and economic classification. Such information is also used for projections for the current budget year and, in the form of indicative projections, for the year following the budget year. The final report analyses any deviations between the budget and the actual outcome and identifies the effect of macroeconomic factors, forecast errors, and policy changes.

Monthly data is now published on the fiscal position of the central government (including social security funds) on the MoF website and in the monthly periodical *Pénzügyi Szemle*, as well as by the Central Statistical Office (*Központi Statisztikai Hivatal*) in its *Monthly Bulletin*.<sup>37</sup> However, the institutional coverage of the central government on the legal definition does not yet match the GFS2001 definition.<sup>38</sup> The MoF has begun to compile quarterly data on the legal government sector on an ESA95 basis for Eurostat and for internal use. The MoF has further declared its intention to begin compiling quarterly general government statistics on the ESA95-compliant GFS 2001 standards.<sup>39</sup>

Under the current definition of labour, the Central Statistical Office compiles non-financial account statistics for all sectors (including government) and the National Bank of Hungary compiles financial accounts statistics for all sectors (including government). The very first projection for the previous year was made by the MoF for March Notification for Excessive Deficit Procedure. However, in 2006 the Statistical Office takes over this job as the change in notification deadline from end of February to end of March makes it possible for it to be based on quarterly national accounts statistics.<sup>40</sup>

A 2003 amendment of the *Act on Public Finances* requires that the government provide a detailed explanation of the difference between fiscal accounts based on the national standards and the ESA95-compliant records sent to Eurostat. The requirement was first applied, retroactively, to the 2002 accounts.<sup>41</sup> There continue to be some discrepancies in the fiscal and monetary accounts of the general government, although they have diminished in recent years due to the consolidation of the government sector.<sup>42</sup>

As part of its "Glass Pockets" programme designed to improve transparency, a government decree has identified a comprehensive list of documents pertaining to central government finances, as well as central and sub-national government budgetary institutions, which must be made publicly available.<sup>43</sup>

The activities of ÁPV, while they do not form part of the central government budget, are approved as part of the budget process. Aggregates of government equity holdings are reported in the annual report of ÁPV, and expenditures of the company are reported in an annex to the annual *Report on the Fulfilment of the Budget*.

The regulation and reporting of quasi-fiscal activities has improved. Starting in 2003, the government is no longer able to use ÁPV's privatisation reserves for subsidising government activities, injecting capital into state-owned enterprises, or undertaking other quasi-fiscal activities. In addition to repaying government debt, privatisation receipts can now be used also to pre-finance budgeted infrastructure and human resource development projects connected with Hungary's EU accession.<sup>44</sup> The quasi-fiscal activities of the MFB have been eliminated and its three main subsidiaries -- NA, ÁAK, and the Student Loan Centre DHK -- were purchased by the central government in December 2002. However, ÁAK and DHK are not covered by the ESA95-compliant general government statistics, as they are classified as corporate entities.<sup>45</sup>

## **A commitment should be made to the timely publication of fiscal information.**

### **Debt reporting**

As part of its SDDS commitments, Hungary regularly releases data on central government debt that cover the operations of the central budget, extra-budgetary funds and the social funds. This is disaggregated by instrument, maturity, currency, and type of holder. The information is released quarterly within 50 days of the end of the reference quarter. Responsibility for compiling the data lies with the Government Debt Management Agency ÁKK which produces a wide range of high-quality current and historical information on its website and in printed form. In addition to the quarterly report, an annual *Debt Management Report* is published. ÁKK further publishes information in advance about its debt-financing needs and plans, including an annual *Debt Management Outlook* and an advance calendar for domestic debt auctions.<sup>46</sup>

ÁKK compiles its debt statistics both at face and at market value. Foreign debt is converted into forints using the official exchange rate. In contrast, the financial accounts compiled by the National Bank are based on market price valuations.<sup>47</sup>

### **Advance release calendars**

In accordance with its commitment to the IMF SDDS, Hungary produces advance release calendars across the range of fiscal data that it releases under the provisions of the SDDS. The calendars typically give one quarter ahead notice of publication and can be accessed either through the IMF website or via a range of Ministry of Finance publications. Statistics released outside of the regular schedule are not announced beforehand.<sup>48</sup>

### 3. OPEN BUDGET PREPARATION, EXECUTION, AND REPORTING



Compliance in progress

#### Fiscal policy objectives, macroeconomic framework, and risks

##### Fiscal policy objectives

Hungary has an open budget process, in which the budget bill and the closing accounts are discussed by parliament, together with the opinion expressed by the State Audit Office.<sup>49</sup> The fiscal year is the calendar year, with the budget bill typically submitted to the parliament by late September for final voting by late December. Hungary has made good progress in placing its budgetary process within a broader macroeconomic framework, in identifying the objectives of fiscal policy and detailing possible risks. Since 1997, the government has submitted a report to Parliament on the expected impact of the budget bill together with information on expected fiscal activity for the following two years.<sup>50</sup> The annual budget documents clearly identify fiscal policy objectives.

The *Act on Public Finances* allows the government to present a supplementary budget in the event of significant changes in the economic outlook. Problems are still created by the fact that, since 2002, additional spending is possible without parliamentary approval and additional appropriations, provided that the deficit does not exceed the budgeted amount by more than 5% of total expenditure. As a result, both spending and the deficit have exceeded expectations in 2004. Under an amendment to the *Act on Public Finances* in the 2005 draft budget, the Budget Act shall be amended by parliament if the deficit exceeds the budgeted expenditures of the sub-divisions of the central government -- central budget, social security funds, and extra-budgetary funds -- by more than 2.5 %. A supplementary budget is needed when the overshoot exceeds 5%. At the moment, the Budget Act for each year explicitly identifies line items, which can be modified without parliamentary approval. However, overall expenditure control has become tighter with transfers within the budget of a given item now increasingly the only source of flexibility.<sup>51</sup>

As non-eurozone member of the EU, Hungary is required to prepare annual convergence reports that, among other things, require the government to identify medium-term fiscal policy objectives, even though these tend to be quite broad and general. It is likely that this commitment will enhance longer-term fiscal planning in the country. However, problems are still caused by relatively frequent revisions of the targets.<sup>52</sup>

##### Macroeconomic framework

The Ministry of Finance published its basic macroeconomic model in 2001.<sup>53</sup> The current forecasting framework is not publicly available, although the analytical staff of the Ministry of Finance is generally recognised to be well qualified. There is some frustration on the part of market participants with the chequered track record of the Ministry's projections of the budget deficit in recent years. The budget documents do not explicitly consider different macroeconomic scenarios, although the *Convergence Programme* does.<sup>54</sup>

##### Fiscal risks

The budget documents do not formally quantify fiscal risks, although the medium-term budget framework is used to assess alternative budget scenarios with some discussion of risks.<sup>55</sup> In compliance with the *Act on Public Finances*, the report on the fulfilment of the annual budget includes comprehensive statements on outstanding government

guarantees. The Ministry of Finance undertakes its internal sectoral risk analyses. Although the budget contains no evaluation of state guarantees, provisions are made for guarantees expected to be called. The provisions cover the outstanding guarantees of the National Development Bank and the Foreign Trade Bank, as well as guarantees issued to exporters and small and medium-sized companies. The total amount of the loans is some 5-6% of GDP. In the recent past, the provisions made have been far in excess of the guarantees called. The parliament annually places a legally binding limit on guarantees and any issued in excess of this level require additional parliamentary approval. The government is allowed to charge a guarantee fee of up to 0.5% of the guaranteed amount. Each individual guarantee is reported to the State Audit Office. The SAO has called on the government to pay greater attention to revenue risks in its budget documentation, which currently does not include difference scenarios.<sup>56</sup>

The government has adopted a strategy of managing fiscal risks by establishing special reserves in the budget. However, the implementation of the programme has been incomplete. For example, a reserve was to be created for the Social Security Fund but this has not been done to date. The general reserve under the *Act on Public Finances* has a legal minimum of 0.5% of total expenditures. It is used for unexpected events but can also be used as compensation for revenue loss. As a consequence of overshooting the deficit targets, a new safety reserve of 100 billion forints (0.7% of GDP) was introduced this year. The funds are at present created for one year at a time and any unspent funds (in net terms) are not carried over to the next fiscal year. Any unspent amounts have to date been used to meet fiscal targets.<sup>57</sup>

ÁKK has a risk-management strategy for government debt. About 99.9% of foreign currency debt is currently in euros. The Agency issues a quarterly risk management report. ÁKK has tended to be more risk-averse than the Ministry of Finance. Among other things, it has taken a fairly cautious stance on foreign currency borrowing which the Ministry favours on cost grounds.<sup>58</sup> Some observers have expressed concern that the fiscal difficulties of Hungary might at some point lead investors to substantially reassess their attitudes towards Hungarian government debt.

### **Fiscal sustainability**

The medium-term budget frameworks contain some discussion of fiscal sustainability. In connection with the 1999 pension reform, projections were made of the long-term implications of the fiscal situation. In general, however, fiscal sustainability has become a sensitive issue in Hungary's current excessive deficit situation at a time when serious structural reform looks extremely unlikely before the 2006 elections and the main solution offered for the fiscal woes is acceleration of growth. A particularly complex issue is the lack of serious health care reform to date.

Hungary remains committed to joining the euro-zone, which in turn presupposes sustained efforts to bring the fiscal situation under control. Even then, however, the risk remains that inability to enforce fiscal discipline will lead to membership being delayed into the next decade. Even under a more optimistic scenario, it is not clear that the government's convergence plans are sufficient to put government finances on a sufficiently healthy footing for when monetary autonomy is surrendered to the European Central Bank. The government's de facto target appears to be the minimum acceptable 3% of GDP public sector deficit, rather than an overall fiscal balance.<sup>59</sup> Some discussion of structural reform, as well as medium-term sensitivity analysis of government finances, is contained in the *Convergence Programme*.<sup>60</sup>

## Budget presentation

### Data reporting

The Hungarian budget covers the budgetary central government, social security funds, and the extra-budgetary funds. Data on the general government in compliance with the ESA95 standards are provided by a special chapter attached to the general explanation of the budget bill and the final accounts bill.

The budgeting process involves medium-term planning. A two-year framework was used in 2001-2 to match the political cycle and to strengthen the role of medium-term planning by making the second-year projections into actual appropriations. The approach was, however, abandoned by the new Socialist-led government in the 2003 budget due to transitional difficulties in the face of changing macroeconomic circumstances and the desire for better harmonisation with EU standards. The *Act on Public Finances* allows the authorities to choose between a one-year and a two-year framework.<sup>61</sup>

Hungary produces and disseminates a comprehensive range of budgetary information, facilitating analysis and promoting accountability. The Ministry of Finance disseminates information from the Treasury accounts, social security funds and extra-budgetary funds, and from local governments. While there is no complete description of the methodology through which all the data is compiled, the methodology for compiling data on the operations of the central government has been developed to adhere to the GFS system. The data classified in this manner differs slightly from the GFS86 methodology, in that repayments of loans are included in revenue and gross lending is counted as expenditure. Data released in accordance with Hungary's commitment to the SDDS, however, is compiled so as to comply with GFS methodology.<sup>62</sup>

The current accounting system combines elements of cash and accrual-based methodologies. However, budget preparation and reporting are based on GFS86-compliant cash-based model. A transition to the ESA95-compliant GFS2001 system is underway, although no formal framework for the transition has been adopted. Considerable progress has been made, with the compilation of intermediate fiscal statistics and the dissemination of metadata being the key remaining problems.<sup>63</sup> At the moment, accrual estimates are made for taxes, social contributions, interest, certain kinds of property income, normative transfer to enterprises and social transfers, wages, employer contributions to social security and labour market funds, and the use of goods and services. These typically involve time adjustments to cash data using accrual interest calculations by ÁKK.<sup>64</sup>

## Budget execution and monitoring

The management of fiscal flows is to a high degree centralised at the State Treasury, which makes all disbursements on the basis of authorisation by the central budget, the social security funds, and the extra-budgetary funds. Entities such as ÁPV and ÁAK operate outside of the Treasury system and have separate accounts either at the National Bank or at commercial banks.<sup>65</sup>

During the budget year, the Ministry of Finance publishes monthly budget monitoring reports, which are currently prepared at the central government level. They are available on the MoF website within one month of the end of any given calendar month. The reports are then sent to the State Audit Office, the Government Control Office, and several parliamentary committees.<sup>66</sup> The monthly execution data uses a national classification and provides only summary data. Revenue and expenditure streams are not classified in either economic or functional terms. However, the annual execution data does comply with the GFS1986 classification guidelines.<sup>67</sup>

Local governments prepare semi-annual and annual reports, as well as “quick reports” each quarter. The reports cover all their revenues and expenditures, including subsidies from the central government. Financial committees are required to comment on the semi-annual and annual execution reports. They further monitor revenues and changes in assets of the municipalities, as well as examine the reasons for borrowing and their economic basis. Findings are reported to the municipal council which can, if necessary, refer them to the State Audit Office.<sup>68</sup>

Each budgetary organisation is required to have its own internal control unit. In October 2001, a new Central Harmonisation Unit (*Ellenőrzési Rendszer Fejlesztési Főosztály*, CHU) was created as an independent budgetary body under the direct supervision of the minister of finance in compliance with the *Act on Public Finances*, which places the minister in charge of the development, regulation, co-ordination, and harmonisation of the public internal financial control system. Under the *Act on Public Finances*, the minister of finance is required to implement the standards and norms of internal audit and to assess its quality through compliance tests.

The Treasury checks spending requests from budgetary organisations in advance. The government in 2003 adopted a new decree designed to enhance the internal audit of budgetary organisations. Under the provisions of the decree, financial and performance audits can be conducted in line with international best practices. Internal auditors, who must meet high professional qualification standards, are granted functional and organisational independence. Summaries of all independent audits are submitted to the MoF on an annual basis. The Ministry then compiles them into a comprehensive report on the quality of financial management and internal controls, which in turn is submitted to the government. Under the new regulations, budgetary entities have to establish financial management and control procedures, as well as undertaking regular risk assessment of their activities. All financial decisions have to be properly documented for audit purposes.<sup>69</sup>

The Government Control Office (*Kormányzati Ellenőrzési Hivatal*, GCO), which is under the control of the Office of the Prime Minister, was established in 1993 as a body responsible for special internal audit tasks in compliance with the Government Decree No. 70/2004 (IV.15). The government decides what tasks the Office should undertake and the prime minister has the right to make requests. An annual plan is presented to the government which approves it by issuing a decree. Some *ad hoc* audits are undertaken but they seldom number more than two a year and do not tend to be very extensive. The remit of operations, with the exception of EU funds, focuses on institutions closely connected with the government. The GCO has the right to audit extra-budgetary funds and state-owned enterprises but does so only very infrequently. The GCO cannot duplicate work undertaken or planned by the State Audit Office, unless expressly required to do so by the government. The two institutions exchange their annual audit plans.<sup>70</sup>

GCO investigates the impact of expenditure or revenue collection, financial control, and the management of budgetary institutions and extra-budgetary funds. The GCO was made the national control authority for EU funds in 2003 and the control and audit of such funds has become its primary responsibility. It is eventually expected to account for 90% of the GCO's workload, compared to the current 50%. On-the-spot checks of different categories of funds are conducted in 5-15% of the cases. It is further able to review the effectiveness of control at various levels of government. All audits are conducted in accordance with the Institute of Internal Auditors (IIA) Standards. The main focus of the work is on legal and regulatory compliance. The reports are submitted to the heads of the relevant departments and not made public. In cases of improprieties, reports are made to the government and/or the relevant ministries, which are then responsible for taking corrective measures.<sup>71</sup>

The GCO is fully financed by the government. It currently has a staff of 166. As an internal government agency, the GCO does not have formal requirements to publish its findings. The work plans of the GCO are approved by the prime minister.<sup>72</sup>



### **Accounting basis**

The *Act on Public Finances* stipulates that accounting of budgetary receipts and expenditures shall be on a cash basis, in accordance with GFS86. Hungary is currently transitioning to ESA95 and GFS2001-compliant accrual-based system.

### **Procurement and employment**

Hungary has a central public procurement system which is regulated by the *Act CXXIX:2003 on Public Procurement*, which replaced an earlier act from 1995. The Act conforms to international best practices and is fully EU-compliant.<sup>73</sup> Procurement is managed by the Public Procurement Office (*Központi Szolgáltatási Főigazgatóság*). The public procurement legislation does not apply to non-financial public enterprises and certain agencies, such as the Motorway Company, which nonetheless engage in fiscal activities.<sup>74</sup>

The government's "Glass Pockets" programme requires the publication of all contracts involving the expenditure of public funds and the management of public property worth more than 5 million forints. All operations using public resources, whether conducted by state agencies or private companies, can now be audited by the State Audit Office irrespective of their value.<sup>75</sup>

The process of civil service recruitment has a clear basis in law and matches EU standards. Recruitment is conducted through a competitive process and positions are filled in accordance with the qualifications required for them. New recruits are required to pass a civil service examination. Personal connections and political considerations result in some efficiency losses that, however, are not sufficient to fundamentally distort the process. Civil servants are governed by the *Act XXIII:1992 on the Legal Status of Civil Servants* and the *Code of Ethics for Civil Servants*. Annual reviews of staff performance, comparing previously agreed tasks with outcomes, are conducted on the basis of the *Act on the Legal Status of Civil Servants*. Outside assessments of staff performance are conducted periodically at government agencies, including the MoF.<sup>76</sup>

### **Fiscal reporting**

The *Act on Public Finances* stipulate that the central government, social security funds, extra-budgetary funds, and sub-national governments must present their final accounts to the parliament within eight months of the end of the year.<sup>77</sup> In addition, the Ministry of Finance produces regular updates on fiscal activity.

Hungary subscribes to the IMF SDDS, and meets its standards for coverage, periodicity and timeliness of reporting central government and local government data. For central government activity, this means monthly data releases, within one month of the reference month. General government data is released annually, with a timeliness of six months after the end of the reference year. There is an advance release calendar giving one-quarter ahead notice of precise release dates. The data are compiled from Treasury accounting records of actual out-turns, but are nonetheless considered provisional, subject to the eventual approval of parliament.<sup>78</sup>

The *Act on Public Finances* requires the government to provide the legislature with a *Report on the Fulfilment of the Annual Budget*. The Act also requires that the authorities present final accounts for central government to parliament within eight months of the end of the fiscal year. In addition, Hungary's monthly bulletins on the budget are accompanied by a ministerial commentary that addresses unanticipated deviations in the data. The information presented in this way is subject to the scrutiny of the SAO. The process of reconciling budget proposals with programme results is well developed.<sup>79</sup>

## 4. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY

●●●● Compliance in progress

### Data quality standards

As a SDDS subscriber, Hungary broadly meets the IMF standards for the quality, coverage, and timeliness of its fiscal data. The data is typically presented in a GFS86-compliant format and only the classification of some extra-budgetary institutions in the general government represents a deviation from international best practices. The classification of data conforms to the 1993 *System of National Accounts*. Sound statistical techniques are used and source data are validated with other administrative records, even if similar assessments are not conducted for the outputs. Only minor discrepancies remain between above the line and below the line items and revisions practices are generally known. However, the IMF has noted the need to improve metadata accessibility.<sup>80</sup>

### Independent scrutiny of fiscal information

#### Independent Audit

The status of the State Audit Office is enshrined in the Hungarian Constitution, which defines it as the “financial and economic audit organisation of the parliament.”<sup>81</sup> Its precise responsibilities are laid down by the *Act XXXVIII:1998 on the State Audit Office*.<sup>82</sup> It is an independent state entity accountable solely to the parliament, which elects its president and two vice presidents for a period of 12 years. These individuals can only be removed in the face of professional misconduct or conflict of interest. Independence was further enhanced in 2004 through the establishment of a separate budget for SAO.<sup>83</sup> Parliamentary approval is not required for the SAO’s work plan, although the president does typically discuss it with the parliament. The annual plans are typically based on a medium-term plan, although *ad hoc* audits can also be conducted when deemed necessary. SAO is generally regarded as one of the most efficient and professional state agencies in Hungary. The European Commission in its 2003 *Comprehensive Monitoring Report* noted that “The State Audit Office is functionally and operationally independent, its staff is adequate and well trained and its audit services satisfactorily cover all public and EU funds.”<sup>84</sup>

The SAO is required by law to form an opinion on the government’s budget proposal which is submitted to the parliament and debated simultaneously with the budget bill. Both the minister of finance and the SAO president have to give speeches at the opening of the session. Similarly, the *Act on Public Finances* stipulate that the central government, social security funds, extra-budgetary funds, and sub-national governments must present their final accounts to the State Audit Office within six months of the end of the year.<sup>85</sup> The procedure adopted for the budget bill is also applied to the final accounts. The SAO can comment on any aspect of the budget proposals except for the government’s policy positions. The issues addressed typically cover compliance with laws and decrees (including EU requirements), consistency with the government’s economic policy, the nature of appropriations, and the quality of projections. The SAO highlights areas where it sees a discrepancy of more than 5% between the government’s projects and the SAO’s own estimates based on previous experience. The report on the final accounts includes comments on the presentation and the planning methods, and reviews the estimates used. In order to formalise the process, the SAO has frequently advocated the adoption of a special act on the state household.<sup>86</sup>

SAO criticised the 2006 budget proposal arguing that spending was underplanned and no specific basis was given for some of the revenue items.

The SAO can further follow the use of EU funds in Hungary. The remit of regular *ex post* audit also covers extra-budgetary funds, social security funds, and the use of state transfers by sub-national governments. All SAO findings are published and submitted to parliament.<sup>87</sup> In addition, the audit plans of the Office are available on the website.<sup>88</sup> The quality of audit has tended to be lower and its remit less comprehensive in the fragmented sub-national sector. The largest cities are audited on an annual basis, but a special sampling system exists for the smaller municipalities. All municipalities are audited at least once every 4 years. All municipalities have control committees that are required to report on their budget implementation to the municipal council. The largest towns, municipalities with expenditures of more than 300 million forints, and municipalities with outstanding loans, also have to engage an outside independent auditor to review their balance sheets, surplus cash statements, and profit and loss accounts. The findings of such audits are published.<sup>89</sup>

The Office maintains high quality information services, in many areas also in English, reporting on its own activities and on conditions of fiscal transparency and data integrity. The SAO has typically conducted financial compliance audits, but is currently expanding its remit to include performance auditing of government activity. SAO now has a separate division for performance audits that applies international best practices in its work.<sup>90</sup> Comprehensive audits of government agencies are typically undertaken once every 4-5 years. In the event of any irregularities, the audited entity has to prepare a compliance plan. SAO verifies compliance within a year. However, the SAO's position as an institution accountable to the parliament means that its primary response to improprieties is to refer the information to the parliament, which then has to decide on corrective action. Instances of fraud are reported also to the police. SAO has a total staff of around 650 of whom some 200 work in the 20 branch offices. It has been able to maintain its staffing levels even in the face of general budget cuts across the government.<sup>91</sup>

The extra-budgetary funds and Health Care and Pension Funds are required to be audited also by other, independent external auditors. The SAO's work in these instances focuses mainly on compliance.<sup>92</sup>

The government in 2003 launched a special "Glass Pockets" programme to improve transparency standards. In connection with the programme, the SAO has been empowered to audit the operations of private companies involved in public procurement, as well as all other activities involving the use of public resources. In addition, the protection of trade secrets can no longer be applied to any information pertaining to government budgets at any level, to public property, and to EU-related expenditures.<sup>93</sup> However, the publication of these data cannot involve revealing privileged information (know-how, special methods), which could jeopardise the business activity itself.

The SAO and the GCO operate separately from each other. They exchange programmes once a year to avoid duplication.

### **National Statistics Agency**

The Hungarian Central Statistical Office (*Központi Statisztikai Hivatal*, HCSO) is an operationally independent state agency operating under the supervision of the government. The prime minister appoints the HCSO president and his deputy for a once-renewable six-year term. The HCSO is responsible for the production and publication of all official data pertaining to the socio-economic and demographic situation of the country. The Office employs 800 staff in its headquarters and a further 900 in its seven regional branches.<sup>94</sup> The material and human resources are generally deemed adequate for fulfilling the statutory responsibilities, although budget pressures have made it difficult to increase data collection or the use of surveys in recent years.

The status of the HCSO is enshrined in the *Act XLVI:1993 on Statistics*, according to which it can request state agencies who are parties to the Official Statistical Service to provide information about their activities, and in the

implementation of the National Statistical Data Collection Programme, which is established under a yearly government decree. The Act further imposes the responsibility of annual reporting to the parliament and the government. Any natural or legal person is obliged to supply the data requested by any organ of the Official Statistical Service.<sup>95</sup>

The main sources of fiscal information within the Official Statistical Service are the MoF, the State Treasury, the Social Security Fund, and the Tax Office. Sub-national governments report through the MoF, whereas reporting by the Social Security Fund is done separately on a quarterly basis. Most fiscal data is accepted as obtained from the Treasury system and assembled by the MoF. Data from the Tax Office and wage data is cross-checked. However, in general, there are relatively few tools for quality control in the fiscal sphere.

The development of statistical methodology and norms in Hungary is the responsibility of a tripartite working group headed by the CSO but also including the MoF and the National Bank of Hungary, which is responsible for financial statistics, including general government debt. The operations of the group are governed by a written cooperation agreement with rules. The group meets regularly and the decisions, as well as the positions of the different parties, are recorded in minutes. The group is deemed to have made considerable progress in improving the quality of official statistics in Hungary. Among other things, the group is responsible for establishing the statistical definition of general government and has reclassified some 200 units, mainly small ones, as government units.

The CSO is responsible for converting fiscal statistics from the national methodology to an ESA95-compliant form and for providing data to Eurostat. The MoF primary data is based on cash accounting, although a gradual transition to an accrual-based system is envisaged. In some areas, Hungary uses time-adjust cash data, which is permitted by the EU. The legal definition of general government in Hungary is not exactly identical to the statistical definition, the main difference having to do with some corporations, such as the Privatisation Agency, NA, and public media corporations (Press, Radio, TV) which cover less than 50% of their costs through sales.

## INTERVIEWS

Representatives of *Oxford Analytica* interviewed the following individuals during visits to Hungary between 5 and 9 September and 1 and 4 November 2005:

### National Bank of Hungary

#### 7 September 2005

Zsolt Kondrát	Head	Department of Monetary Instruments and Markets
Gyula Barabás	Head	Department of Financial Analysis

### Ministry of Finance

#### 3 November 2005

Álmos Kovács	Deputy State Secretary	
Gizella Csonka	Chief Advisor, Deputy Head	Directorate of Fiscal and Monetary Policy Affairs
László Szabó	Counsellor	Division of Government Budget and Fiscal Policy

## ADDITIONAL INTERVIEWS

#### 5 October 2005

Werner Riecke	Managing Director	Derive Business Consultancy
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#### 6 September 2005

Emil Kemény	Head of Division	State Audit Office ( <i>Állami Számvevőszék</i> )
Gábor Pósch	Chief Advisor	State Audit Office
Márta Bartolák	Auditor	State Audit Office
Attila Boros	Auditor	State Audit Office

#### 7 September 2005

Péter Janza	Vice President	Government Control Office ( <i>Kormányzati Ellenőrzési Hivatal</i> )
Judit Erdei Szántóné	Head of Unit	External Relations

#### 8 September 2005

Györgyi Joó Tóth		
Zsuzsanna Balogh	Adviser, Treasury Commissioner	State Treasury
	Department	

**2 November 2005**

György Kovács	Head of Macroeconomic Research	Budapest Economics
László Csaba	Professor	Central European University
Gergely Fórián Szabó	Director	CA IB Fund Management Inc.

**3 November 2005**

István Bedekovics	Deputy Director, Department of National Accounts	Central Statistical Office
Sándor Pető	Correspondent	Reuters

## NOTES

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- <sup>6</sup> Interviews conducted in Budapest, 6-8 September and 2-3 November 2005.
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- <sup>22</sup> "Hungary: Report on the Observance of Standards and Codes—Data Module—Substantive Update on Government Finance Statistics," Response by the Authorities, p. 5.
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- <sup>34</sup> "Report on the Observance of Standards and Codes: Hungary—Fiscal Transparency: An Update," May 2002, p. 2; "Hungary: Report on the Observance of Standards and Codes—Fiscal Transparency Module—Update," May 2004, p. 3.



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- <sup>63</sup> “Hungary: Report on the Observance of Standards and Codes—Data Module—Substantive Update on Government Finance Statistics,” p. 4.
- <sup>64</sup> “Hungary: Report on the Observance of Standards and Codes—Data Module—Substantive Update on Government Finance Statistics,” Response by the Authorities, p. 19.
- <sup>65</sup> “ROSC: Hungary: Fiscal Transparency,” 2001, p. 8.
- <sup>66</sup> [www.pm.gov.hu/web/home.nsf/frames/english](http://www.pm.gov.hu/web/home.nsf/frames/english)
- <sup>67</sup> “Hungary: Report on the Observance of Standards and Codes—Data Module—Substantive Update on Government Finance Statistics,” p. 7.
- <sup>68</sup> Interviews conducted in Budapest, 6-8 September and 2-3 November 2005.

- <sup>69</sup> “Hungary: Report on the Observance of Standards and Codes—Fiscal Transparency Module—Update,” 2004, pp. 4-5; Government decree No. 193/2003 (XI.26) on Internal Audit of Public Budgetary Organisations.
- <sup>70</sup> Interviews conducted in Budapest, 6-8 September and 2-3 November 2005.
- <sup>71</sup> Interviews conducted in Budapest, 6-8 September and 2-3 November 2005.
- <sup>72</sup> Interviews conducted in Budapest, 6-8 September and 2-3 November 2005.
- <sup>73</sup> “Hungary: Report on the Observance of Standards and Codes—Fiscal Transparency Module—Update,” May 2004, p. 3; Interviews conducted in Budapest, 6-8 September and 2-3 November 2005.
- <sup>74</sup> “ROSC: Hungary: Fiscal Transparency,” 2001, p. 9; <http://kszfweb.econet.hu>
- <sup>75</sup> “Hungary: Report on the Observance of Standards and Codes—Fiscal Transparency Module—Update,” 2004, p. 4.
- <sup>76</sup> Interviews conducted in Budapest, 6-8 September and 2-3 November 2005; “Hungary: Report on the Observance of Standards and Codes—Data Module—Substantive Update on Government Finance Statistics,” p. 6; *Ibidem*, Response by the Authorities, pp. 8, 10.
- <sup>77</sup> “ROSC: Hungary: Fiscal Transparency,” 2001, p. 8.
- <sup>78</sup> IMF SDDS, Summary Statement for Hungary.
- <sup>79</sup> “ROSC: Hungary: Fiscal Transparency,” 2001.
- <sup>80</sup> “Hungary: Report on the Observance of Standards and Codes—Data Module—Substantive Update on Government Finance Statistics,” pp. 7-9.
- <sup>81</sup> Constitution, Article 32/C(1), (2).
- <sup>82</sup> [www.asz.gov.hu/C1256D89002F54FF/2D6B8D414155A72DC125675900347471/13F91D5F755D6296C1256DD005572C8/\\$FILE/Legislation.pdf](http://www.asz.gov.hu/C1256D89002F54FF/2D6B8D414155A72DC125675900347471/13F91D5F755D6296C1256DD005572C8/$FILE/Legislation.pdf)
- <sup>83</sup> “ROSC: Hungary: Fiscal Transparency,” 2001, p. 9; Constitution of the Republic of Hungary, Articles 19(3)(k), 32/C(3); Interviews conducted in Budapest, 6-8 September and 2-3 November 2005; [www.asz.gov.hu/C1256D89002F54FF/2D6B8D414155A72DC125675900347471/6ECDCCC7995A5E0BC1256EB7004AEB3F/\\$FILE/SAO\\_BUDGET\\_2004.pdf](http://www.asz.gov.hu/C1256D89002F54FF/2D6B8D414155A72DC125675900347471/6ECDCCC7995A5E0BC1256EB7004AEB3F/$FILE/SAO_BUDGET_2004.pdf)
- <sup>84</sup> *Comprehensive monitoring report on Hungary’s preparations for membership*, p. 52; [http://europa.eu.int/comm/enlargement/report\\_2003/pdf/cmr\\_hu\\_final.pdf](http://europa.eu.int/comm/enlargement/report_2003/pdf/cmr_hu_final.pdf)
- <sup>85</sup> “ROSC: Hungary: Fiscal Transparency,” 2001, p. 8.
- <sup>86</sup> Interviews conducted in Budapest, 6-8 September and 2-3 November 2005.
- <sup>87</sup> SAO Act, Article 17; “ROSC: Hungary: Fiscal Transparency,” 2001, p. 9.
- <sup>88</sup> [www.asz.gov.hu/C1256D89002F54FF/2D6B8D414155A72DC125675900347471/75BDEE25F71C8CE6C1256DEF0035785E/\\$FILE/2004\\_Audit\\_Plan.pdf](http://www.asz.gov.hu/C1256D89002F54FF/2D6B8D414155A72DC125675900347471/75BDEE25F71C8CE6C1256DEF0035785E/$FILE/2004_Audit_Plan.pdf)
- <sup>89</sup> “ROSC: Hungary: Fiscal Transparency,” 2001, p. 9; Interviews conducted in Budapest, 6-8 September and 2-3 November 2005.
- <sup>90</sup> [www.asz.gov.hu/C1256D89002F54FF/2D6B8D414155A72DC125675900347471/8200971DC9F0C91EC1256DEA0038E02F/\\$FILE/Main\\_Strategy.pdf](http://www.asz.gov.hu/C1256D89002F54FF/2D6B8D414155A72DC125675900347471/8200971DC9F0C91EC1256DEA0038E02F/$FILE/Main_Strategy.pdf)
- <sup>91</sup> Interviews conducted in Budapest, 6-8 September and 2-3 November 2005.
- <sup>92</sup> Interviews conducted in Budapest, 6-8 September and 2-3 November 2005.
- <sup>93</sup> “Hungary: Report on the Observance of Standards and Codes—Fiscal Transparency Module—Update,” 2004, p. 4.
- <sup>94</sup> [http://portal.ksh.hu/portal/page?\\_pageid=38,119963&\\_dad=portal&\\_schema=PORTAL](http://portal.ksh.hu/portal/page?_pageid=38,119963&_dad=portal&_schema=PORTAL); “ROSC: Hungary: Fiscal Transparency,” 2001, p. 9.
- <sup>95</sup> Act XLVI:1993 on Statistics, Articles 3(3), 6(1)(h), 8; [http://portal.ksh.hu/portal/page?\\_pageid=38,123598&\\_dad=portal&\\_schema=PORTAL](http://portal.ksh.hu/portal/page?_pageid=38,123598&_dad=portal&_schema=PORTAL); “Hungary: Report on the Observance of Standards and Codes—Data Module—Substantive Update on Government Finance Statistics,” Response by the Authorities, p. 6.